

Message Text

CONFIDENTIAL

PAGE 01 BONN 11152 01 OF 03 161808Z
ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 ICA-11 XMB-02 OPIC-03 SP-02
LAB-04 SIL-01 OMB-01 SS-15 STR-07 CEA-01 L-03
H-01 PA-01 /101 W
-----104177 162009Z /63

R 161726Z JUN 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 9472
DEPARTMENT TREASURY
WHITE HOUSE WASHDC
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMEMBASSY VIENNA

C O N F I D E N T I A L SECTION 01 OF 03 BONN 11152

USEEC
USOECN ALSO FOR EMBASSY
WHITE HOUSE FOR OWEN
DEPARTMENT PASS CEA AND FRB

E.O. 11652: GDS
TAGS: ECON EFIN GW
SUBJECT: EMBASSY FORECAST OF THE GERMAN ECONOMY
FOR 1978 AND FIRST HALF OF 1979

REF: BONN 10582

1. SUMMARY: BASIC CONSTRAINT ON GERMAN ECONOMIC GROWTH
IS A WEAKNESS OF DEMAND IN ALMOST ALL SECTORS OF THE
ECONOMY. CONSTRUCTION AND AUTOMOBILES ARE THE ONLY
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BONN 11152 01 OF 03 161808Z

IMPORTANT INDUSTRIES AT NEAR CAPACITY LEVELS OF OUTPUT.
ASSUMING FOR PURPOSES OF THIS PROJECTION NO ADDITIONAL
EXPENDITURE OR TAX PROGRAMS AND NO STRONG SURGE IN
EXPORT DEMAND, THE ECONOMY SEEMS LIKELY TO EXPAND AT A
FAIRLY STEADY BUT ONLY MODERATE PACE THROUGH THE FIRST
HALF OF 1979 WITH PERHAPS SOME DECELERATION TOWARD THE
END OF THIS PERIOD. FOR THE 12 MONTHS STARTING JULY 1,

IT IS PROJECTED TO EXPAND 3 PERCENT ABOVE THE LEVEL OF THE PREVIOUS 12 MONTHS. IN THIS SCENARIO INFLATION COULD BE EXPECTED TO REMAIN AT APPROXIMATELY CURRENT RATES OR POSSIBLY TO EASE OFF SOMEWHAT. END SUMMARY.

2. BELOW ARE OUR ESTIMATES OF THE PRINCIPAL GNP COMPONENTS FOR 1978:

TABLE I
1978 GERMAN REAL GNP
(PERCENT GROWTH OVER 1977,
SEASONALLY NON-CALENDAR DAY ADJUSTED,
CONSTANT 1970 PRICES)

PRIVATE CONSUMPTION	3.2
GOVERNMENT CONSUMPTION	3.3
INVESTMENT IN EQUIPMENT	6.2
INVESTMENT IN CONSTRUCTION	2.2
EXPORTS	4.3
IMPORTS	5.6
CHANGE IN FOREIGN BALANCE 1/	
CHANGE IN STOCKS 1/	
GNP	2.7

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BONN 11152 01 OF 03 161808Z

1/ AS PERCENTAGE OF 1977 GNP.
LESS THAN 0.1.

GNP DEFLATOR	3.2
CPI	3.0

3. ASSUMPTIONS:

(A) FISCAL AND MONETARY POLICIES REMAIN BASICALLY UNCHANGED INTO 1979.

(B) WAGE SETTLEMENTS IN 1979 ARE REACHED WITHOUT SIGNIFICANT LOSSES FROM STRIKES AND WAGE BILL INCREASE AT ABOUT 5.5 PERCENT.

(C) FOR ASSUMPTIONS ABOUT NET FOREIGN BALANCE AND EXCHANGE RATE FOR 1978 SEE REFTEL. FOR THE FIRST HALF OF 1979 WE ASSUME NO MAJOR CHANGES IN EXCHANGE RATE, FOREIGN BALANCE, INTERNATIONAL COMMODITY PRICES AND STEADY EXPANSION IN INTERNATIONAL TRADE.

4. PRINCIPAL FACTOR MAKING FOR SLIGHT ACCELERATION OF GROWTH IN 1978 OVER 1977 IS THE TURNAROUND IN FISCAL POSTURE FROM A CONTRACTIONARY BUDGET IN 1977 TO MODESTLY EXPANSIONARY PUBLIC SECTOR BUDGETS IN 1978.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 BONN 11152 02 OF 03 161814Z
ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 ICA-11 XMB-02 OPIC-03 SP-02
LAB-04 SIL-01 OMB-01 SS-15 STR-07 CEA-01 L-03
H-01 PA-01 /101 W
-----104392 162008Z /63

R 161726Z JUN 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 9473
DEPARTMENT TREASURY
WHITE HOUSE WASHDC
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMEMBASSY VIENNA

C O N F I D E N T I A L SECTION 02 OF 03 BONN 11152

GOVERNMENT INVESTMENT PROGRAMS AND STRONGER PRIVATE INVESTMENT INDUCED BY FALLING INTEREST RATES ARE CHIEF STIMULATIVE ELEMENTS. TAX CUTS AT END OF 1977 HAVE CONTRIBUTED TO HIGHER CONSUMPTION AND INVESTMENT OUTLAYS. REAL APPRECIATION OF MARK, ON THE OTHER HAND, HAS REDUCED FOREIGN DEMAND AND DIVERTED SOME DOMESTIC DEMAND TO THE FOREIGN SECTOR. APPRECIATION IS ALSO HAVING SOME NEGATIVE IMPACT ON DOMESTIC ACTIVITY.

TABLE II
GERMAN REAL GNP
(PERCENTAGE INCREASES OVER PREVIOUS
HALF YEAR AT ANNUAL RATES,
SEASONALLY NON-CALENDAR DAY ADJUSTED,

CONSTANT 1970 PRICES)

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BONN 11152 02 OF 03 161814Z

	1978	1979	
	1ST HALF	2ND HALF	1ST HALF
PRIVATE CONSUMPTION	3.6	1.2	2.6
GOVERNMENT CONSUMPTION	5.1	1.1	2.8
INVESTMENT IN EQUIPMENT	8.8	1.5	1.5
INVESTMENT IN CONSTRUCTION	1.2	11.0	3.6
EXPORTS	5.4	2.4	4.0
IMPORTS	5.6	3.0	4.9
CHANGE IN FOREIGN BALANCE 1/			
CHANGE IN STOCKS 1/			
GNP	3.2	3.1	2.6

1/ AS PERCENTAGE OF PREVIOUS HALF YEAR'S GNP.

LESS THAN 0.1

GNP DEFLATOR	3.3	3.1	3.0
CPI	3.0	3.0	3.0

5. SEASONALLY UNADJUSTED DATA FOR THE FIRST QUARTER OF 1978 INDICATE FAIRLY GOOD GROWTH IN MOST SECTORS, WITH THE NOTABLE EXCEPTION OF THE CONSTRUCTION INDUSTRY WHERE ACTIVITY FELL BACK SHARPLY DUE TO BAD WEATHER. ON A SEASONALLY ADJUSTED BASIS, GNP APPEARS TO HAVE GROWN AT A SLIGHTLY LESS THAN ONE PERCENT ANNUAL RATE. WE EXPECT THE SECOND QUARTER TO SHOW SHARP GROWTH (5.6 PERCENT) AS PART OF THE LOSS DUE TO STRIKES AND WEATHER IN THE FIRST QUARTER IS MADE UP AND THE ECONOMY THEREAFTER TO SETTLE INTO A QUARTERLY GROWTH PATH OF

CONFIDENTIAL

PAGE 03 BONN 11152 02 OF 03 161814Z

BETWEEN 2.0 AND 3.0 PERCENT AT ANNUAL RATES. WE EXPECT CONSTRUCTION ACTIVITY TO REBOUND STRONGLY IN THE SECOND AND THIRD QUARTERS AND TO MAINTAIN A STEADY AND MODEST PACE OF GROWTH THEREAFTER. FROM NOW ON CAPACITY LIMITATIONS RATHER THAN LACK OF DEMAND SHOULD BE THE PRINCIPAL CONSTRAINT ON GROWTH IN THIS SECTOR. INVESTMENT IN EQUIPMENT, WHICH HAS PERFORMED SURPRISINGLY WELL IN THE LAST TWO QUARTERS, SHOULD

LEVEL OFF AS CAPACITY UTILIZATION RATES REMAIN LOW BY HISTORICAL STANDARDS. PRIVATE CONSUMPTION HAS BEEN BENEFITING BY THE UNBLOCKING OF STATUTORY SAVINGS IN MID-1977 AND BY TAX CUTS AT THE END OF 1977. WITH NO NEW STIMULUS PACE OF DEMAND SHOULD DECELERATE OVER COURSE OF YEAR.

6. WITH FISCAL AND MONETARY POLICIES ASSUMED ESSENTIALLY UNCHANGED, WE SEE NO REASON FOR MUCH CHANGE IN GROWTH PROSPECTS FOR THE FIRST HALF OF 1979. IF ANYTHING, THE ECONOMY SHOULD BE TENDING TOWARDS A SLIGHT DECELERATION. GOVERNMENT INVESTMENT EXPENDITURES WOULD REACH A PEAK IN 1978 AND REMAIN FAIRLY CONSTANT THEREAFTER. THE SLIGHT PROGRESSIVITY OF THE TAX SYSTEM WOULD KEEP THE BUDGET DEFICIT ALMOST CONSTANT IN NOMINAL TERMS, OR PERHAPS EVEN REDUCE THE OVERALL PUBLIC SECTOR DEFICIT SOMEWHAT DEPENDING ON THE OUTCOME OF PLANS TO CONSOLIDATE THE FINANCES OF THE SOCIAL INSURANCE FUNDS. WE WOULD EXPECT CONSUMPTION TO GO ON EXPANDING AT A MODERATELY GOOD PACE BUT SEE THIS BASICALLY AS THE MAIN ELEMENT TO SUSTAIN CURRENT LEVELS OF GROWTH RATHER THAN ON ADDING ANY DYNAMIC. FURTHER EXPANSION IN BOOM SECTORS, CHIEFLY CONSTRUCTION AND AUTOMOBILE, WILL BE RUNNING UP AGAINST CAPACITY LIMITATIONS.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 BONN 11152 03 OF 03 161810Z
ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 ICA-11 XMB-02 OPIC-03 SP-02
LAB-04 SIL-01 OMB-01 SS-15 STR-07 CEA-01 L-03
H-01 PA-01 /101 W

-----104271 162007Z /63

R 161726Z JUN 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 9474
DEPARTMENT TREASURY
WHITE HOUSE WASHDC
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

AMEMBASSY TOKYO
AMEMBASSY VIENNA

C O N F I D E N T I A L SECTION 03 OF 03 BONN 11152

7. THERE MAY BE SOME FURTHER DAMPENING IN INFLATION RATE, PRIMARILY AS RESULT OF PASS THROUGH TO RETAIL LEVEL OF EARLIER MARK APPRECIATIONS. INCREASE IN VALUE ADDED TAX AS OF JANUARY 1978 WILL EXERT SOME PRICE PRESSURE AT CONSUMER LEVEL. DEMAND PULL INFLATION LIKELY TO DEVELOP ONLY IN CONSTRUCTION AND POSSIBLY AUTOMOBILE SECTOR. WE SEE UNEMPLOYMENT REMAINING AT ABOUT 4.5 PERCENT.

8. OUR PROJECTIONS IMPLY A REAL GNP GROWTH OF 2.7 PERCENT FROM THE FOURTH QUARTER OF 1977 TO THE FOURTH QUARTER OF 1978. FOR THE TWELVE MONTHS STARTING ON JULY 1, 1978 THEY IMPLY A 3.0 PERCENT GROWTH IN REAL GNP OVER THE PRECEEDING 12 MONTH PERIOD. THE FIRST
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BONN 11152 03 OF 03 161810Z

HALF OF 1979 IS PROJECTED TO RISE BY 2.8 PERCENT OVER FIRST HALF OF 1978 AND SECOND QUARTER OVER SECOND QUARTER GNP TO SLOW TO 2.5 PERCENT ANNUALIZED GROWTH RATE.

9. FOR PURPOSES OF THIS PROJECTION WE HAVE ASSUMED NO NEW FISCAL MEASURES AND A CONTINUATION OF THE PRESENT BASICALLY ACCOMMODATING MONETARY POLICY. SHOULD ADDITIONAL FISCAL MEASURES BE DECIDED UPON AFTER THE BONN SUMMIT, THEY ARE LIKELY TO AFFECT 1978 GROWTH ONLY VERY marginally. THEY WOULD, HOWEVER, BEGIN TO IMPACT MORE SIGNIFICANTLY DURING THE FIRST HALF OF 1979. SINCE AT THE PRESENT IT REMAINS VERY UNCERTAIN, HOWEVER, HOW MUCH ADDITIONAL FISCAL STIMULUS MAY BE DECIDED UPON WE HAVE RESTRICTED OURSELVES TO A STATUS QUO PROJECTION INTO WHICH THE EFFECTS OF ANY SUCH ADDITIONAL STIMULUS CAN BE FACTORED AT A LATER TIME.
MEEHAN

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 16 jun 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BONN11152
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780252-0751
Format: TEL
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780652/aaaabsrq.tel
Line Count: 322
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 022ee287-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 BONN 10582
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 06 jun 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2327857
Secure: OPEN
Status: NATIVE
Subject: EMBASSY FORECAST OF THE GERMAN ECONOMY FOR 1978 AND FIRST HALF OF 1979
TAGS: ECON, EFIN, GE
To: STATE TRSY MULTIPLE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/022ee287-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014